

# Costs behind Lidl's £5,99 jeans – Part I

By João on May 2, 2016 at 8:00 am

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How is it possible for Lidl to sell jeans for £5,99? This was the intriguing and challenging question that Gethin Chamberlain at The Guardian set out to answer through a very interesting cost analysis ([Original article here](#)).

This selling price is indeed a remarkable figure considering that, according to the author, the lowest prices from competitors like Primark are £8 and Tesco are significantly higher – £12 higher.

The article provides an insightful breakdown analysis of all cost components and the multiple cost-cutting options. For example, at the design stage of the product (jeggings, “tight-fitting leggings that resemble jeans”), all non-essential components were reduced or eliminated. “Cotton-rich fabric (77%), with an elasticated waistband; they have a single button, a YKK zip, two back pockets and two at the front, held together with stitching, no rivets. There is no embroidery on the pockets.

The denim fabric of a jeans (Photo credit: Wikipedia)

This is all important. Every additional detail adds to the price of the finished item. A breakdown of costs at a Bangladeshi jeans factory published by Bloomberg in 2013 priced a zip at 10p, a button at 4p and rivets at 1p each. Embroidery added another 9p, the pockets 6p and the labels 7p. At these margins, every single penny counts, so it is no surprise to find that the jeggings are pared back to the bone.”

Then, there are assembling costs. The author draws on various sources to indicate various estimates, but they all reveal really low wages paid to workers in Bangladesh. Add overall factory costs. “But we still need to ship the jeans, and there are warehouse charges and port fees, so we can stick on another 30p, taking us up to £4.80. And we still need to get them from the port to the store, so that’s another 50p. That gives us £5.30, but there is still VAT to go on top.”

Adding all the costs might lead to a figure really close to the retail price, maybe even slightly above – in which case “they may be a loss leader: that happens.”

The author concludes: “Because when your business model is based on offering the lowest possible prices, someone has to subsidise that, and that someone is the worker stitching those jeans. Lidl does not buy its jeans from Bangladesh because Dhaka’s factories are the finest in the world: it does so because they pay their workers a pittance. And that, ultimately, is how it is possible to sell a pair of jeans for £5.99. It’s not magic. It’s just exploitation.”

This is the point where I feel that the conclusion doesn’t really match the in-depth analysis that precedes it. I suspect you may also be thinking the same – confirm that in my next post!

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